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**STATEMENT OF EDMUND B. FITZGERALD**  
**CHAIRMAN, NORTHERN TELECOM INC.**  
**NASHVILLE, TENNESSEE**

**&**

**CHAIRMAN AND CHIEF EXECUTIVE OFFICER**  
**NORTHERN TELECOM LIMITED**  
**MISSISSAUGA, ONTARIO**

**BEFORE THE**  
**SUBCOMMITTEE ON INTERNATIONAL TRADE**  
**SENATE FINANCE COMMITTEE**

**ON**

**S. 942**

**WASHINGTON, D.C.**

**MAY 3, 1985**

Page 2

I am Edmund B. Fitzgerald, Chairman of Northern Telecom Inc. of Nashville, Tennessee and Chairman and Chief Executive Officer of Northern Telecom Limited of Mississauga, Ontario. I am an American and maintain my principal residence in the United States.

I have been employed for nearly 40 years by U.S. high technology companies and have been intimately involved with international trade and investment issues for at least the past 25 years. Prior to joining Northern Telecom five years ago as President of its U.S. subsidiary, Northern Telecom Inc., I served as Chairman of Cutler-Hammer, Inc., of Milwaukee, Wisconsin and subsequently as Vice Chairman of the Eaton Corporation of Cleveland, Ohio.

In the early 1970's I spent three years as Vice Chairman of the Industry Advisory Council of the U.S. Department of Defense (IAC) and am currently a Member of President Reagan's National Security Telecommunications Advisory Committee (NSTAC). I am also Chairman of the U.S. Committee for Economic Development (CED) in Washington, D.C. and am a former President of the National Electrical Manufacturers Association (NEMA) in the United States.

Page 3

I want to thank you, Senator Danforth, for this opportunity to again appear before you and present my views on S. 942. In September 1984 you gave me a similar opportunity to comment on your bill S. 2618. I also wish to thank you for your continuing interest in the expansion of international trade opportunities for telecommunications equipment. As the second largest manufacturer of telecommunications equipment in the United States and in North America, Northern Telecom has much to gain from the achievement of your objective.

In these days of heightened emotions regarding trade issues, the posture of Northern Telecom in the U.S. market has been often incorrectly characterized in presentations to the Congress, to the FCC, the Department of Commerce, the USTR and the U.S. International Trade Commission. Even though I covered this issue in my previous appearance before you, I would like to again review our U.S. posture for the sake of clarity.

Northern Telecom Limited is a Canadian chartered corporation with 52% of our shares owned by Bell Canada Enterprises Inc., a large Canadian holding company. Our shares not owned by BCE, Inc., are traded on public exchanges in Canada, the U.S. and Europe.

Page 4

Approximately 50% of our shares not owned by BCE, Inc. are owned by investors resident in the United States.

Northern Telecom, in practice, operates as a North American corporation with approximately 68% of its revenue produced in the U.S., 22% in Canada and 10% in non-North American markets. As noted previously, our U.S. company, Northern Telecom Inc. headquartered in Nashville, Tennessee, is the second largest manufacturer of telecommunications equipment in the United States. It currently employs 20,000 people in 15 U.S. manufacturing facilities, 15 U.S. R & D centers and more than 100 U.S. sales, service and support offices. Its U.S. investment base is nearly \$2 billion, and similar to its employment, continues to grow.

Northern Telecom is the largest supplier of fully digital switching systems in the world with almost 30 million equivalent lines either installed or on order. We believe we were the largest supplier of both public (central office) and private (PBX) fully digital switching systems in the U.S. in 1984. Our U.S. value added is approximately 85%, which is almost the same level of local content achieved in the digital switching systems we produce in Canada for sale in Canada. The values not added domestically in either country represent

Page 5

components and subassemblies imported from about 10 countries and is an indication of the global integration of the electronics manufacturing business today. I doubt that any other U.S. telecommunications supplier has a domestic value added significantly higher than Northern Telecom Inc. I might add that Northern Telecom Inc. exports approximately \$100 million of its output from its U.S. facilities.

In point of fact, the International Trade Commission, the U.S. Department of State, the Export-Import Bank, and the U.S. Commerce Department all regard Northern Telecom Inc. as a U.S. domestic equipment manufacturer.

Suffice it to say, Northern Telecom Inc. is a U.S. domestic manufacturer - the second largest manufacturer of telecommunications equipment in this country. We employ Americans, we pay taxes as Americans, we produce equipment for the American market and we well serve hundreds of American customers. We are a strong contributor to the American economy and to America's success in the telecommunications equipment industry. We are proud of our role as a U.S. corporation and as a good corporate citizen in the U.S.

**Page 6**

Senator, I should like to use the opportunity you have so kindly given me to make four brief, but I believe pertinent, points:

- 1) To speak to the significant improvements contained in bill S. 942 as contrasted to bill S. 2618.
- 2) To comment on the inherent difficulties in precisely equating perceived trade opportunities and/or barriers.
- 3) To comment on the role of the strong U.S. dollar in the current U.S. unfavorable balance of trade, including trade in telecommunications equipment.
- 4) To update you on Northern Telecom's experience in Japan, which we described to you in some detail in our testimony last September.

Page 7

In addition to these four specific points, we will be submitting in writing, directly to the committee, some suggestions on specific wording changes to clarify the intent of certain sections of your proposed bill.

When I first learned that you intended to prepare a new version of your telecommunications trade bill, I assumed your bill in the 99th Congress would be similar to S. 2618. It appears that S. 942 is a vastly improved version of S. 2618. Your bill this year is a tough, demanding, and forceful piece of trade legislation aimed at forcing open foreign markets for U.S. telecommunications equipment. The bill obviously reflects your frustration, and the frustration of many of your colleagues, with the fact that most major telecommunications markets in the world are much less open than is the U.S. market.

Major manufacturers who do not produce their equipment in the U.S. are making major inroads into the U.S. telecommunications market, while their home countries erect barriers to imports of U.S. telecommunications equipment. The U.S. market represents nearly half of the world market for telecommunications, so it is only to be expected that highly successful world-class telecommunications manufacturers from Europe



Page 8

and Japan, would be attracted to the U.S. market. In all likelihood, all of us would, in fact, regard the attractiveness of our market and the involvement of world-class competition in it as desirable - were it not for the fact that telecommunications equipment produced in the U.S. faces persistent trade barriers rather than an open world trade system.

We at Northern Telecom strongly support an open world trading system with global market access for U.S. telecommunications equipment, and we support the basic purposes of S. 942. Your telecommunications trade bill seeks to secure for U.S. producers of telecommunications equipment and services "substantially equivalent competitive opportunities". Your new bill sends a strong signal to our trading partners that foreign market barriers must be eliminated so that equivalent opportunities exist for U.S. producers. I wish you every success in achieving a more open world trading system and global market access for U.S. telecommunications equipment producers.

You may recall that in commenting on S. 2618 we opposed trade reciprocity on a sectoral product by product or country by country basis. We commend you for turning away from the sectoral approach of S. 2618 in

Page 9

your new bill. In our view it has strengthened S. 932 immeasurably.

Having spent nearly 25 years as a private sector participant in the arena of international trade and investment, I fear I may have lost my initial naivete regarding the existence of unfettered free trade - much less fair trade. Likewise, the concept of a level playing field now appears to me to be much more of a catchy phrase than a probable accomplishment. Free trade like tax reform gives everyone a warm feeling of economic equity until those facets which personally benefit us come under attack.

I believe the reality of today is that we must seek to spread the application of liberal trade policies which encourage trade expansion and which tend to narrow the gaps in trade inequities. The best we can probably expect is a lumpy playing field with favorable as well as unfavorable lumps and no persistent tilt in any one given direction.

I make these observations not to dampen enthusiasm for what you are attempting to accomplish but to emphasize the difficulty of the task you are assigning to the USTR and the President to make very precise

Page 10

judgements on trade equities that are often complex and intertwined with other U.S. trade and political objectives. Additionally, you are calling for harsh remedies to adjust these precisely defined inequities. In many cases the evidence disclosed may not be sufficient to justify the severity of the sanction prescribed. I wish the USTR and the President well in executing the responsibilities you are assigning to them. However, you are giving them a most difficult task which will require patience, persistence and infinite wisdom to accomplish.

In any discussion of trade inequities, you cannot overlook the disastrous impact of the strong U.S. dollar on our current trade imbalance. It has had a major negative impact on U.S. telecommunications trade, particularly with certain countries of Western Europe, in which U.S. product prices have increased 50% or more in the past two years due to the escalation of the U.S. dollar against the local currencies.

Again, I do not wish to denigrate the importance of the thrust of your bill to open world markets to U.S. telecommunications producers. However, even if we had completely open markets today there are few, if any, in which we could successfully compete with U.S. dollar

Page 11

denominated exports from U.S. facilities. Therefore, in addition to the enactment of your innovative bill, we need to get our U.S. financial house in order through a reduction in the federal budget deficit which will, in turn, lower U.S. interest rates and ultimately the value of the dollar against other world currencies. Enactment of your bill without commensurate adjustment in the value of the dollar will not achieve the objectives you seek.

Over recent years, and, in particular the past few months, much of the U.S. Government's attention has been focused on the Japanese telecommunications market.

At the outset, Mr. Chairman, I think all of us in the U.S. telecommunications industry should commend you for the leadership you and other members of the subcommittee have given to current U.S.-Japan telecommunications negotiations. You have greatly contributed to the success of these negotiations, which we hope will result in a significant opening of the newly-liberalized Japanese telecommunications market to foreign suppliers. Your concern about the competitiveness of U.S. telecommunications suppliers worldwide, and your unrelenting determination to pursue enhanced trading opportunities for U.S. telecommunications manufacturers and suppliers who wish

Page 12

to sell in Japan and the rest of the world is deeply appreciated.

Your primary focus on Japan is understandable in view of the U.S.-Japan negotiations over market access to the newly-liberalized Japan telecommunications market including the privatization of Nippon Telegraph and Telephone (NTT) and the authorization of competition in the telecommunications services business. And of course the on-going negotiations over the NTT procurement agreement has served to keep attention focused on Japan.

In the past few months of negotiations, the U.S. has made many demands of Japan and Japan has granted numerous concessions, including reduced performance standards for home and office telephone equipment; modification of some standards to fit U.S. requests; deletion of regulations requiring telephones to make the same buzzing sound; acceptance of U.S. test data; the promise to inform U.S. telephone equipment manufacturers of the complex protocols established for transmission of computer data on telephone lines so that U.S. makers can supply the right kind of equipment; another promise to consider having protocol set by an independent body to reduce chances it will be used to keep out advanced equipment, which Japanese companies are not able to produce;

**Page 13**

registration requirements which will not keep U.S. companies from providing global service; and many others.

Japan has been responsive to our government's demands. I agree with you that it is essential to continue negotiation, and to monitor progress on the recent concessions Japan has made, and to continue to negotiate with Japan for open market access. In just the past month, Japan accepted the U.S. position on standards and certification of telecommunications equipment, which means we have "technical reciprocity" with Japan - a major achievement.

Page 14

In my testimony before you last September, I noted that in my opinion, a major factor in the unfavorable North American balance of trade in telecommunications equipment was that non-North American producers had dedicated substantially greater time, financial and human resources to the development of the North American market than North American producers have dedicated to developing non-North American markets, particularly Japan. In many cases the charge of "closed market" has been made when the real problem has been the lack of sufficient investment in adequate market development.

Last September I also told you that I regarded the limiting factor in Northern Telecom's penetration of the market in Japan not to be an unwillingness on the part of Nippon Telegraph and Telephone to deal with us, but rather our capacity to recruit and train Japanese speaking telecommunications engineers and sales personnel, our capacity to produce documentation in the Japanese language and format, and our capacity to make the necessary modifications to our equipment to make it compatible with the Japanese network.

**Page 15**

In other words, our degree of success in penetrating the Japanese market did not depend so much on trade barriers as upon our ability to serve our customer, NTT, in a manner equivalent to that offered by their current indigenous suppliers.

Since I last appeared before you, Northern Telecom has continued its program of substantial technological, financial and human resource investment in the development of Japan's telecommunications market. We have recruited a skilled, experienced and multi-lingual staff in the offices of Northern Telecom Japan Inc. in Tokyo. We have invested in product modification and documentation translation in order to make our products more attractive to customers in Japan. We received certification in less than six months to connect our SL-1 digital PBX and many of its data options to the NTT network. We have also been selected by NTT as one of two designated suppliers of large line size digital PBX's.

Our order input to date has been modest. We have sold to NTT 70,000 single line telephone sets of two different styles for which certification was obtained in one month from date of documentation submittal. NTT has purchased a 1000 line SL-1 digital PBX from us which is now installed and operating at the Hananomaki Hotel.



Page 16

We have also sold to or have on order from private telecommunications users a reasonable quantity of SI-1 digital PBX's for connection to the NTT network.

The number of sales opportunities currently being presented to us in Japan has multiplied many times since we began serious investment in that market in early 1982. We expect to receive over \$20 million of new orders in Japan in 1985 and to ship \$15 million of product. This represents a three-fold increase from 1984.

In 1983, NTT announced that Northern Telecom had been selected to jointly develop with NTT, under what is called a Track III procurement, an emergency transportable digital switch. This switch, now known as the KS2, is a derivative of the Northern Telecom DMS-10 digital community dial office. The initial prototype of the KS2 is scheduled for delivery to NTT in the 4th quarter of 1985.

This Track III procurement process has been a very valuable experience for both Northern Telecom and NTT. It has provided us with an excellent opportunity to learn about the configuration, protocols and interfaces of the NTT network and the objectives of the new integrated

Page 17

services network to be developed and installed in Japan by NTT during the next ten years. In turn, it has provided NTT the opportunity to learn more about Northern Telecom and our broad technological capabilities in fully digital switching system. For our part, we have been pleased to confirm that the NTT network, although different from the North American public network, is more similar to the North American network than the public networks of Western Europe and many other parts of the world. Conformance to the NTT network, however, has required Northern Telecom to make significant hardware and software modifications to our network products.

This joint educational project has represented a substantial investment (approaching \$10 million) on the part of both Northern Telecom and NTT but represents the type of activity and investment which must be undertaken to establish the mutual trust and respect required to support a long term, mutually advantageous relationship between a sophisticated telecommunications services provider and a competent equipment supplier.

It is in fact very similar to the process by which Northern Telecom became a supplier to the network of AT&T in the United States also using the DMS-10 as the entry product. This activity, which began in 1976, predated

Page 18

the AT&T divestiture by eight years. Product presentations were made at the AT&T Basking Ridge headquarters, in 1977 and initial quotations were requested in 1978. In November, 1979 the Bell System Purchased Products Division announced approval of the Northern Telecom DMS-10 for sale to the Bell Operating Companies.

A supply agreement for the DMS-10 was signed in February, 1980 and the first DMS-10 was placed in service in the Bell System on December 30, 1981 - nearly five years following the commencement of Northern Telecom sales activities. There are now over 200 DMS-10's in service in the Bell Operating Companies with the expectation that this number will more than double in the next two to three years.

It is, therefore, with considerable satisfaction that I am able to report today that Northern Telecom's experience with NTT in Japan has become ever more similiar to our experience with AT&T and the Bell Operating Companies in the United States.

On May 1, 1985 we signed in Tokyo, Japan a memorandum of understanding with NTT setting forth the intention of our two companies to now enter into new

Page 19

studies leading to a long term supply agreement for the DMS-10 as a digital central office switch in the NTT public network. The DMS-10 switches to be provided under the long term supply agreement shall be produced at the Northern Telecom Inc. Digital Switching Systems complex in Research Triangle Park, North Carolina.

The memorandum signed in Tokyo takes note of the knowledge that each of our companies has gained of the other through our previous studies dealing with the development of the KS2 emergency transportable digital switch and sets forth our intention to undertake these new studies relating to the technological and economic evolutions necessary to qualify the DMS-10 for central office service in the NTT network.

These new studies are to be concluded no later than December 31, 1985. Assuming compliance to the schedule and the successful consummation of a long-term supply agreement, we would expect Northern Telecom DMS-10 digital central office switches to begin entering the NTT network in late 1986 or early 1987. This would equate to a five year interval between initiation of sales activities at NTT and the installation of the first DMS-10 switch. As such, this would be exactly the same interval experienced by Northern Telecom in supplying

Page 20

the DMS-10 to the U.S. networks of AT&T and the Bell Operating Companies.

It is difficult at this time to predict the number of DMS-10's that may eventually become part of the NTT network. However, based on the success of this product in many other public networks we are confident that the ultimate quantity will be substantial.

In summary, Senator, I again wish to thank you for your assistance in providing to the U.S. telecommunications suppliers opportunities to gain greater access to world markets for our products. In return I want to assure you that Northern Telecom will continue to make the global marketing investments necessary to avail ourselves of the opportunities your actions are helping to create for us. I believe our experience in Japan is indicative of what can be achieved through close cooperation between the U.S. public and private sectors.

Once again, thank you for the opportunity to appear before your subcommittee.